Global Credit Markets Update | Q4 2022
Running Up That Hill

Oct. 11, 2022

S&P Global
Ratings

This report does not constitute a rating action

Credit Faces A Steep Climb As Conditions Deteriorate

Credit may have reached an inflection point, with downgrades outpacing upgrades and the negative bias (indicator of future rating actions) on the rise. Further compounding the risk is that close to 30% of speculative-grade issuers in the U.S. and Europe are rated 'B-' or lower.

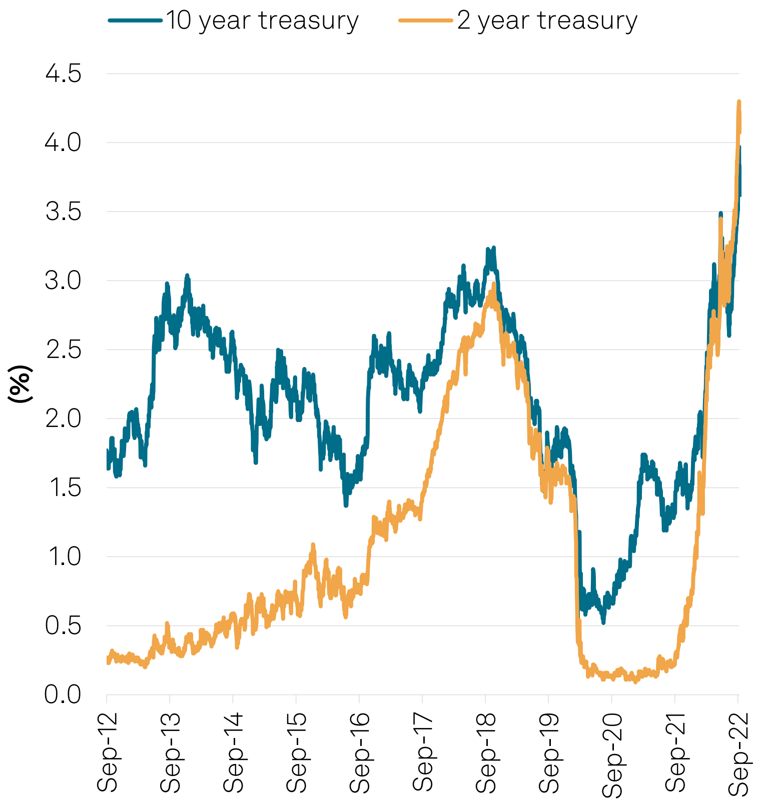
Issuance stalls: Global speculative-grade bond issuance is down near 75% and overall issuance is down around 20%. Near-term maturities look manageable, but there are pockets of real vulnerability. The media and entertainment and telecommunications sectors have the most speculative-grade debt maturing through 2023.

Funding costs continue to ratchet higher, with rising rates contributing more to the increase than widening credit spreads so far. Investment-grade yields are at their highest in a decade.

The global economic outlook continues to weaken. S&P Global economists now expect the U.S., U.K., and Germany to enter shallow recessions in late 2022 or early 2023.

Financing Conditions | Investor Sentiment Turned Sharply In September

Treasuries Reach Highest Yields In A Decade ...



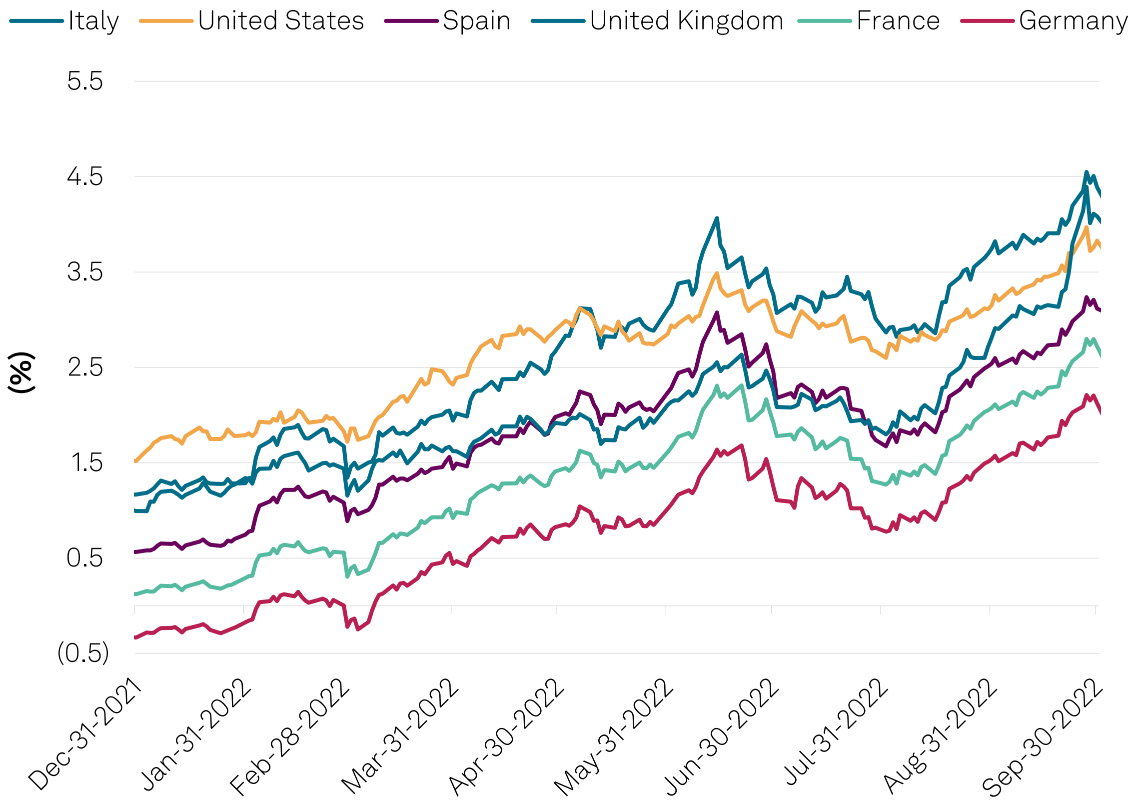
Flashing A Recession Warning ...

And Heightening Bond Market Volatility

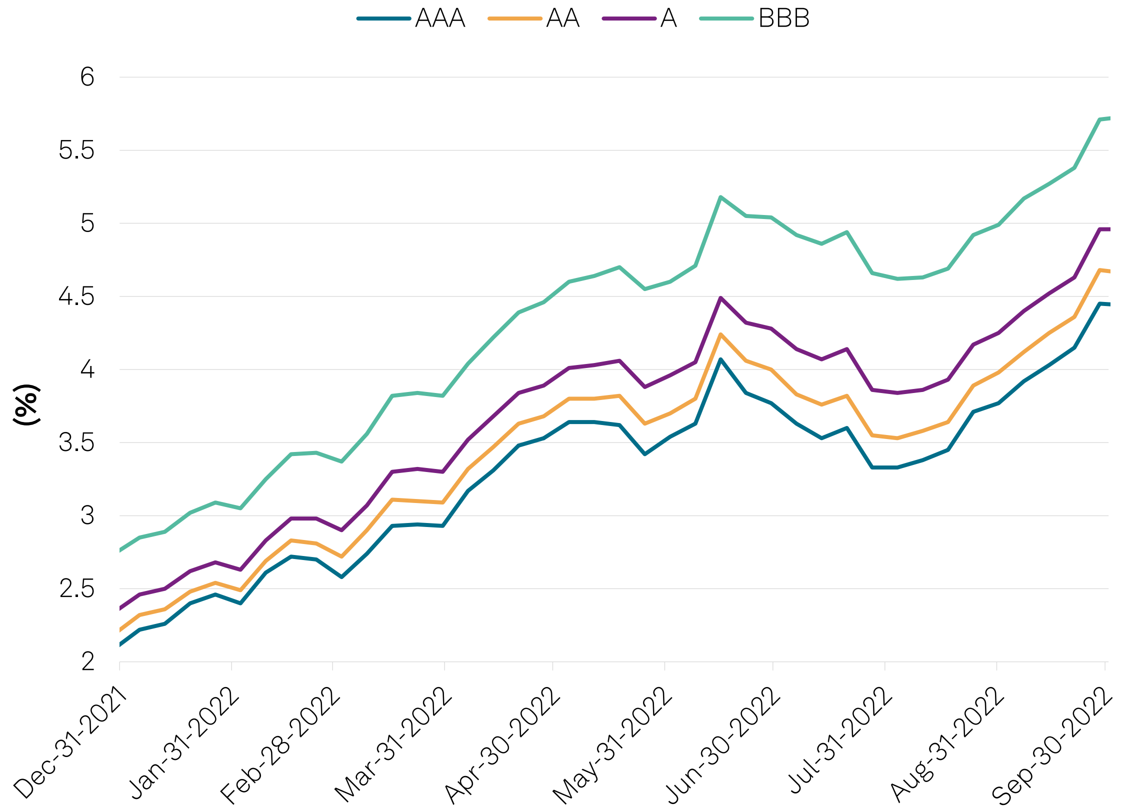
Data as of Sept. 28, 2022. MOVE: ICE BofAML MOVE Index. Sources: Financial Times , S&P Global Market Intelligence; S&P Global Credit Research and Insights.

Financing Conditions | Steep Rise In Yields Rattles Markets

Inflation Fears Spark Concerted Rise In Benchmark Yields



Investment-Grade Bond Yields Near Decade-High

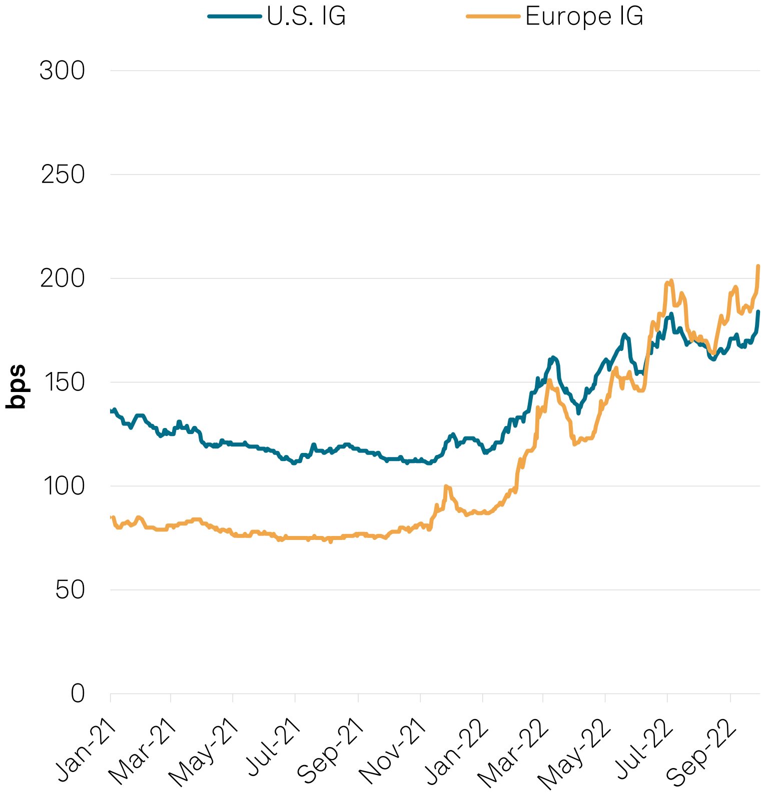


Data as of Sep. 28, 2022. Sources: S&P Global Market Intelligence; S&P Global Credit Research and Insights.

S&P Global
Ratings

Financing Conditions | Spreads Poised To Push Wider

Investment-Grade Spreads



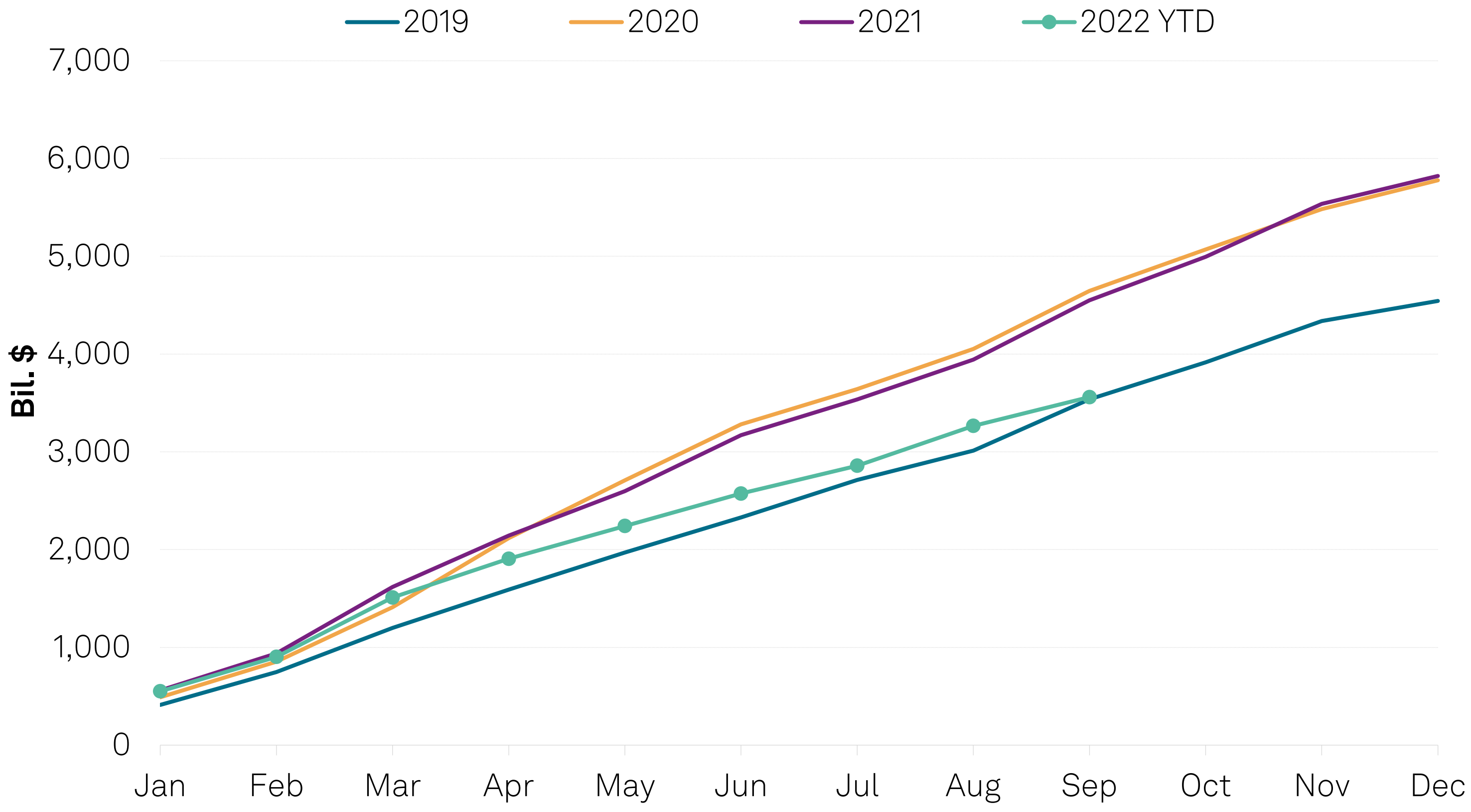
Speculative-Grade And Emerging Market Spreads

- After a brief reprieve of improving financing conditions in late summer, **renewed fears of inflation, recession, and higher-for-longer rates amid rising geopolitical tensions have gripped investors.**
- With increasingly aggressive actions and communications by major central banks, **benchmark yields are having a greater impact than spreads** in 2022 on corporate funding costs.
- Easing emerging market spreads remain elevated versus the beginning of the year, but now **spillover risks threaten from rapid monetary tightening and recession risk in developed markets.**

Note: Data as of Sept. 28, 2022. IG—Investment grade. HY—High yield. Sources: S&P Global Ratings Credit Research & Insights, Federal Reserve Bank of St. Louis, Refinitiv, S&P Dow Jones Indices, U.S. Federal Reserve Bank of St. Louis, Bank of America Merrill Lynch, Bloomberg-Barclays Indices. ICE Benchmark Administration Limited (IBA), 'ICE BofAMLAsia Emerging Markets Corporate Plus Sub-Index Option-Adjusted Spread', spreads from Bloomberg-Barclays are secondary market pricing.

Financing Conditions | Rising Economic Uncertainty Hobble Global Issuance

Global Cumulative Corporate (Financial And Nonfinancial) New Bond Issuance



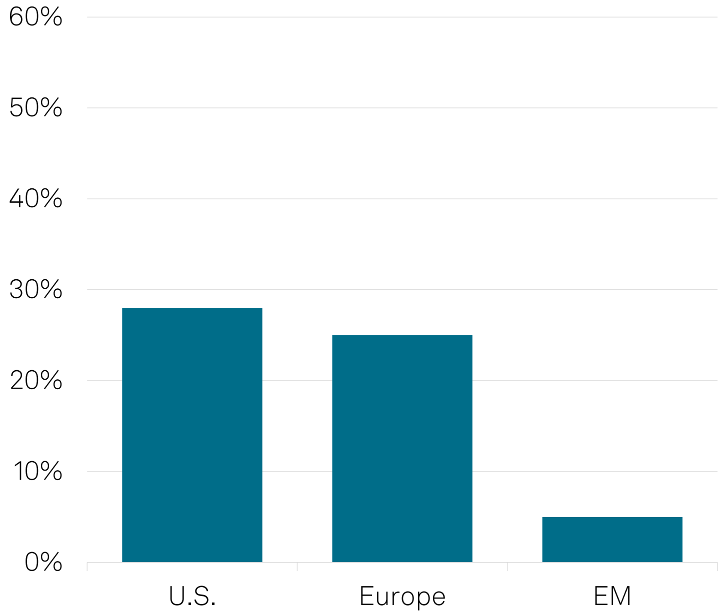
Data as of Sept. 28, 2022. Sources: S&P Global Ratings Credit Research & Insights, Refinitiv.

- **Global corporate bond issuance lags volumes of the past two years** as issuers largely raise funds out of necessity rather than opportunity.
- **Issuance volume slowed in the third quarter across regions,** with riskier credit hardest hit, even as there were a few pockets of sustained issuance in European and Asia-Pacific investment-grade.
- However, no obvious catalyst would appear to trigger a substantial reopening in primary markets before year-end as **uncertainty abounds.**

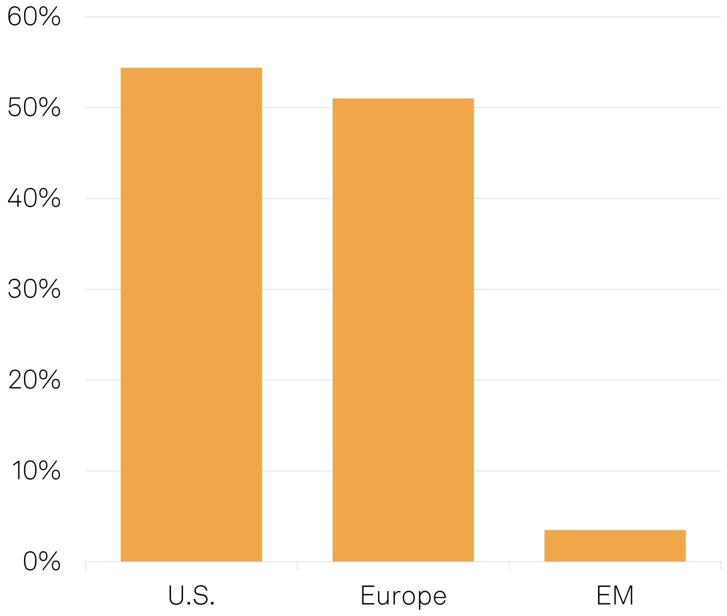
Financing Conditions | Interest Rate Volatility And Dollar Strength Add To Funding Costs

- Issuers with fixed-rate debt have time before they feel the pinch of rising funding costs, while speculative-grade borrowers (with mostly floating-rate debt) will be affected more immediately.
- About 81% of emerging market corporate debt maturing through 2023 is U.S. dollar-denominated. The swiftly strengthening dollar poses exchange rate risk for issuers not adequately hedged.

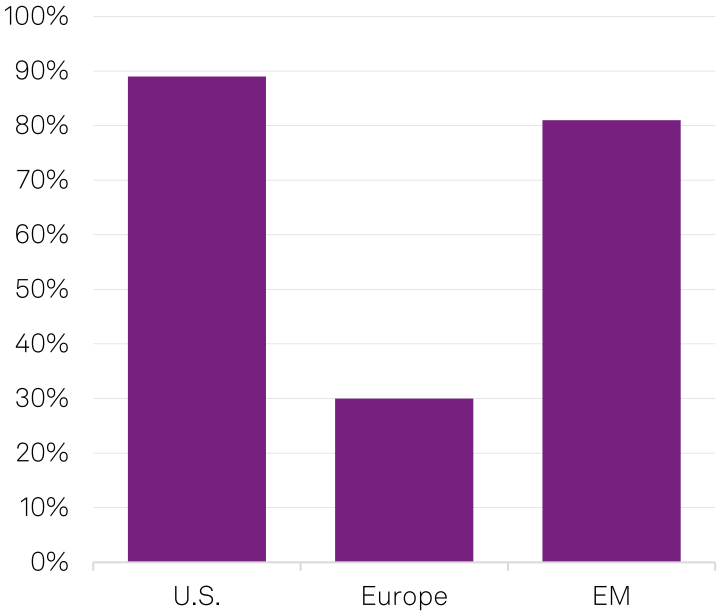
Floating Rate Share
(Total Debt)



Floating Rate Share
(Speculative-Grade Debt)



U.S. Dollar Share
(Debt Maturing Through 2023)

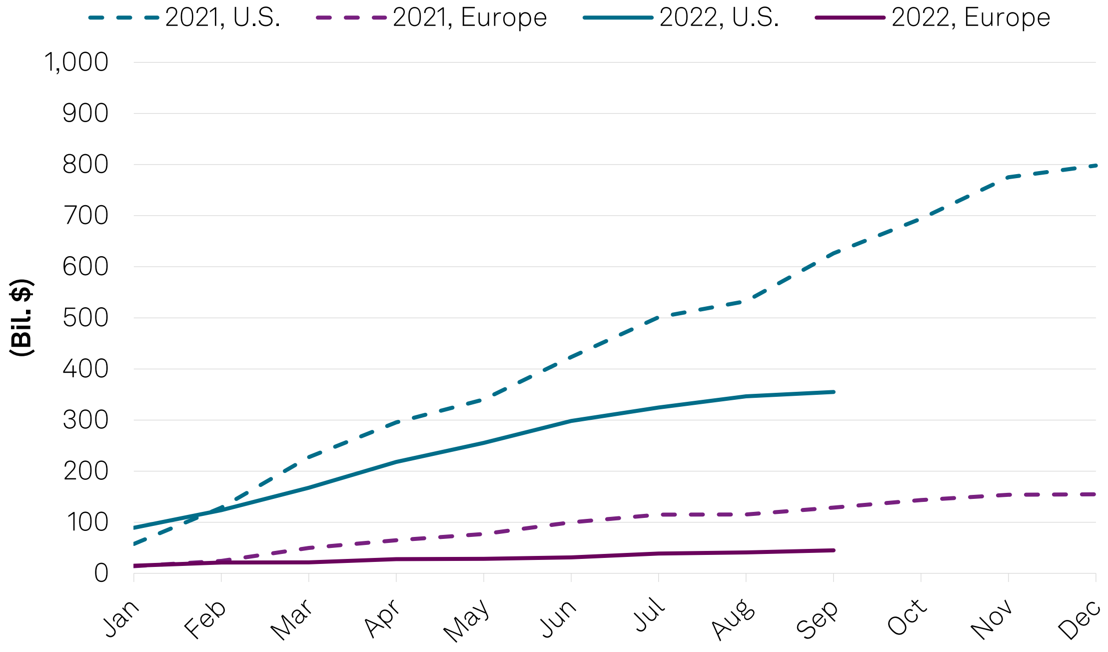


Data as of July 1, 2022. Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings (with a global scale rating) from financial and nonfinancial issuers. EM—Emerging markets. Source: S&P Global Ratings Credit Research & Insights.

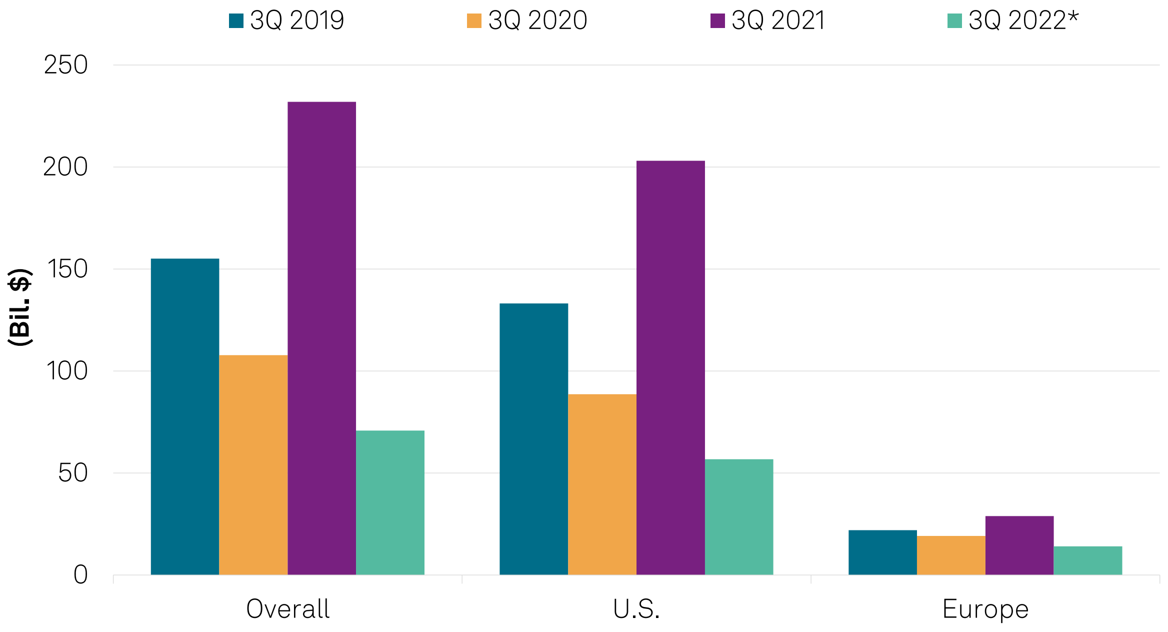
Financing Conditions | No Respite For Leveraged Loans

- **Challenging financing conditions extend to the primary market for leveraged loans,** where issuance has stalled in both the U.S. and Europe.
- Market uncertainty affected the execution and pricing of new broadly syndicated loans, contributing to issuers' reluctance to issue new debt.
- Loans are trading at a discount in the secondary market, further making a primary restart more difficult.

New Leveraged Loan Issuance Volume (Cumulative)



Third-Quarter Leveraged Loan Issuance (U.S. And Europe)



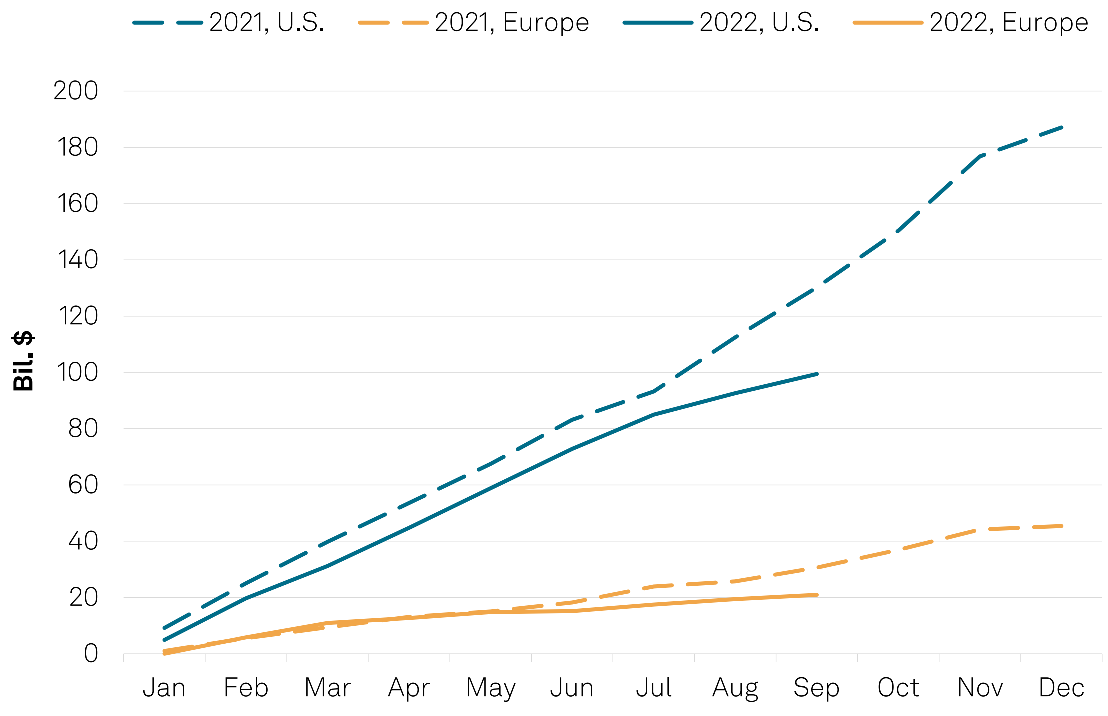
**Data as of Sept. 16, 2022. Leveraged loan issuance includes institutional and pro rata loans. Source: S&P Global Ratings Credit Research & Insights; LCD an offering of PitchBook.*

S&P Global
Ratings

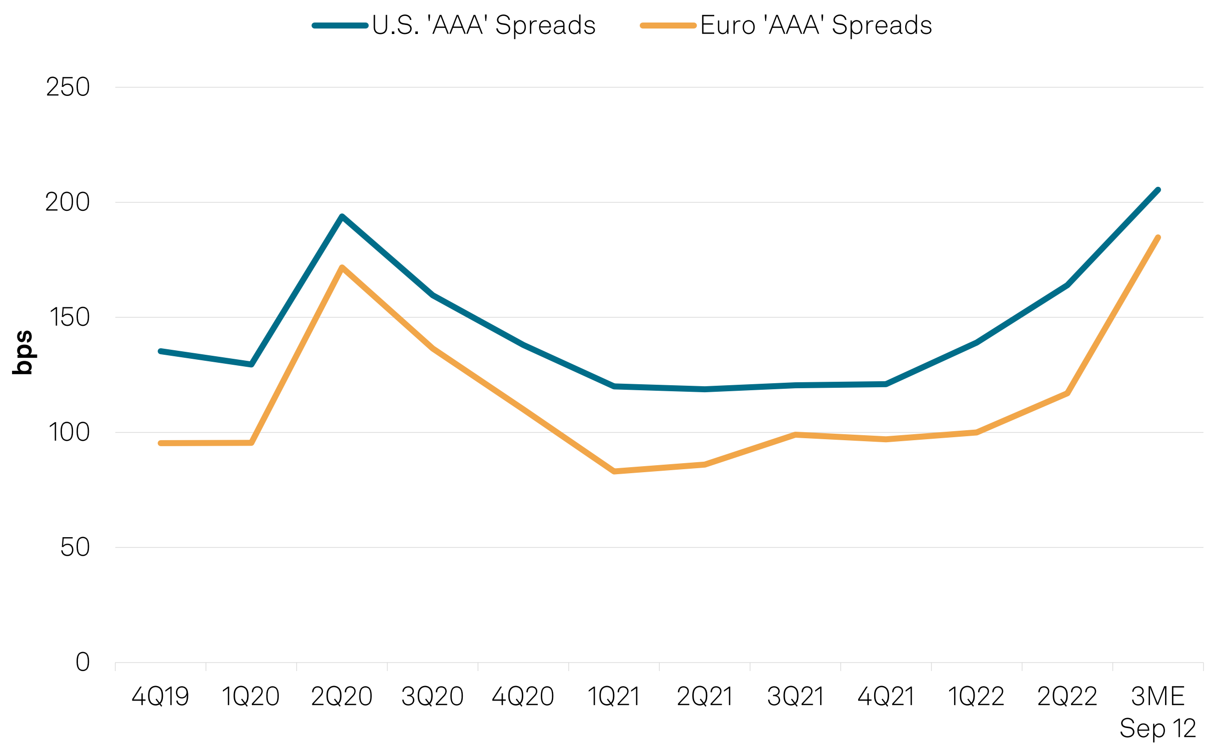
Financing Conditions | CLO Issuance Weakens

- Collateralized loan obligation (CLO) issuance volumes have fallen further behind last year's volume, with U.S. CLO issuance down 21% and European down 27% in 2022.
- Widening CLO 'AAA' spreads now surpass the pandemic levels from 2020, reflecting tightening financing conditions in the broader market.

U.S. And Europe Annual CLO Volume



U.S. And Europe 'AAA' Primary CLO Spreads



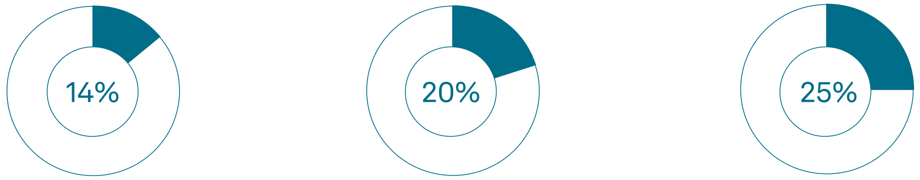
CLO—Collateralized loan obligation. Data as of Sept. 21, 2022. Source: LCD, an offering of PitchBook.

Financing conditions | Near-Term Maturities Remain Largely Manageable

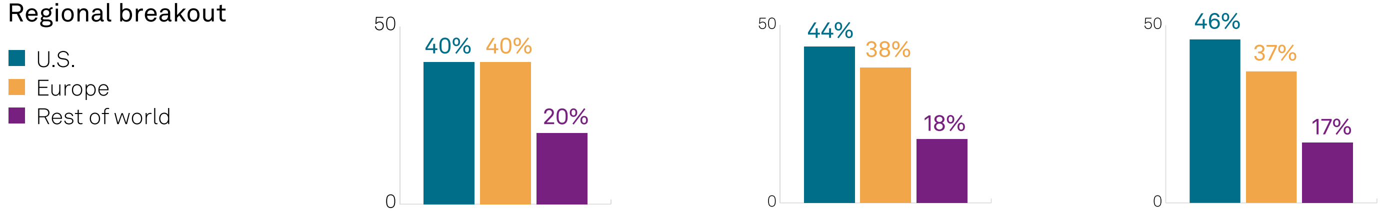
Maturities Are Relatively Low In The Near Term, Higher In Later Years

Debt maturing in the next:	18 months	Three years	Five years
Total debt maturing	$2.73 tril.	$6.36 tril.	$10.8 tril.
Percent of total debt	12%	28%	48%
Speculative-grade share	14%	20%	25%
Amount rated 'B-' and lower	$80.3 bil.	$309 bil.	$700 bil.

Speculative-grade share



Regional breakout



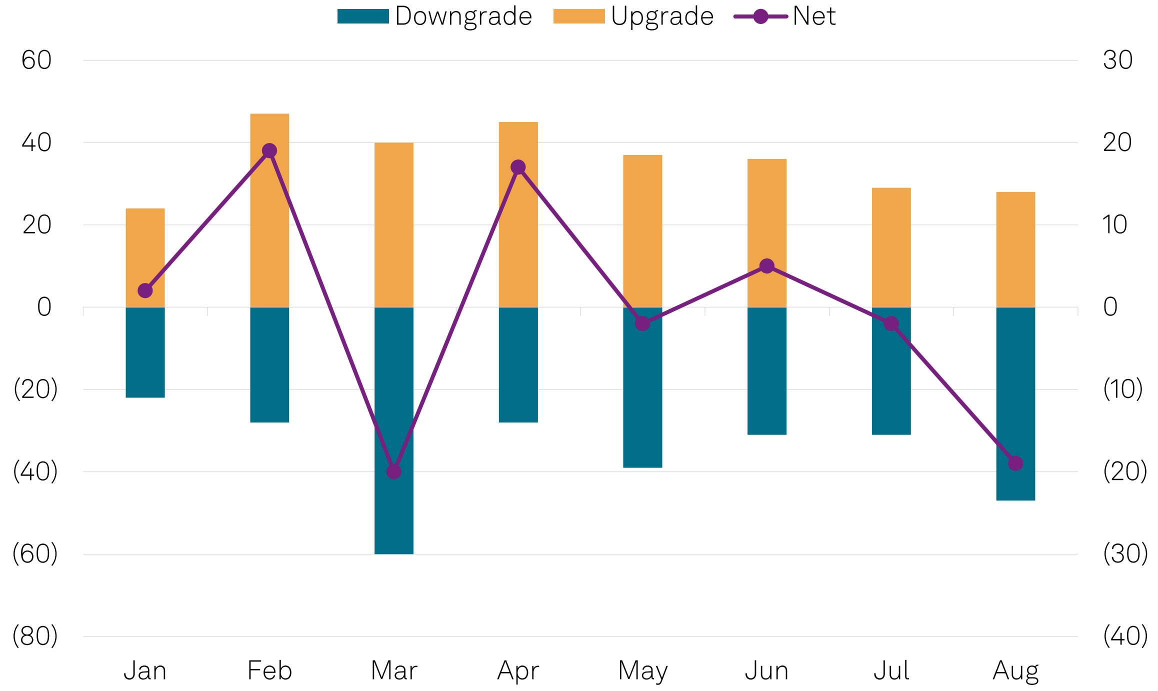
- **Refinancing demands largely appear manageable,** especially over the next 18 months, after companies extended maturity walls during easier financing conditions.
- **Of the $2.7 trillion in global rated debt scheduled to mature through 2023, just 14% is speculative-grade.**
- Although lower ratings account for a smaller share of maturities, refinancing risk is exacerbated by challenging financing conditions.

Data as of July 1, 2022. Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings from financial and nonfinancial issuers. Source: S&P Global Ratings Credit Research & Insights.

Credit Trends | Net Actions Turn Negative

- While the continued recovery after the height of the COVID-19 pandemic led to several months of net positive rating actions, **downgrades have now begun to outnumber upgrades** globally for consecutive months.
- The degree of net negative actions varies by region. Downgrades just slightly exceeded upgrades in Europe in the third quarter, while Asia-Pacific had no upgrades.

Global Monthly Rating Actions



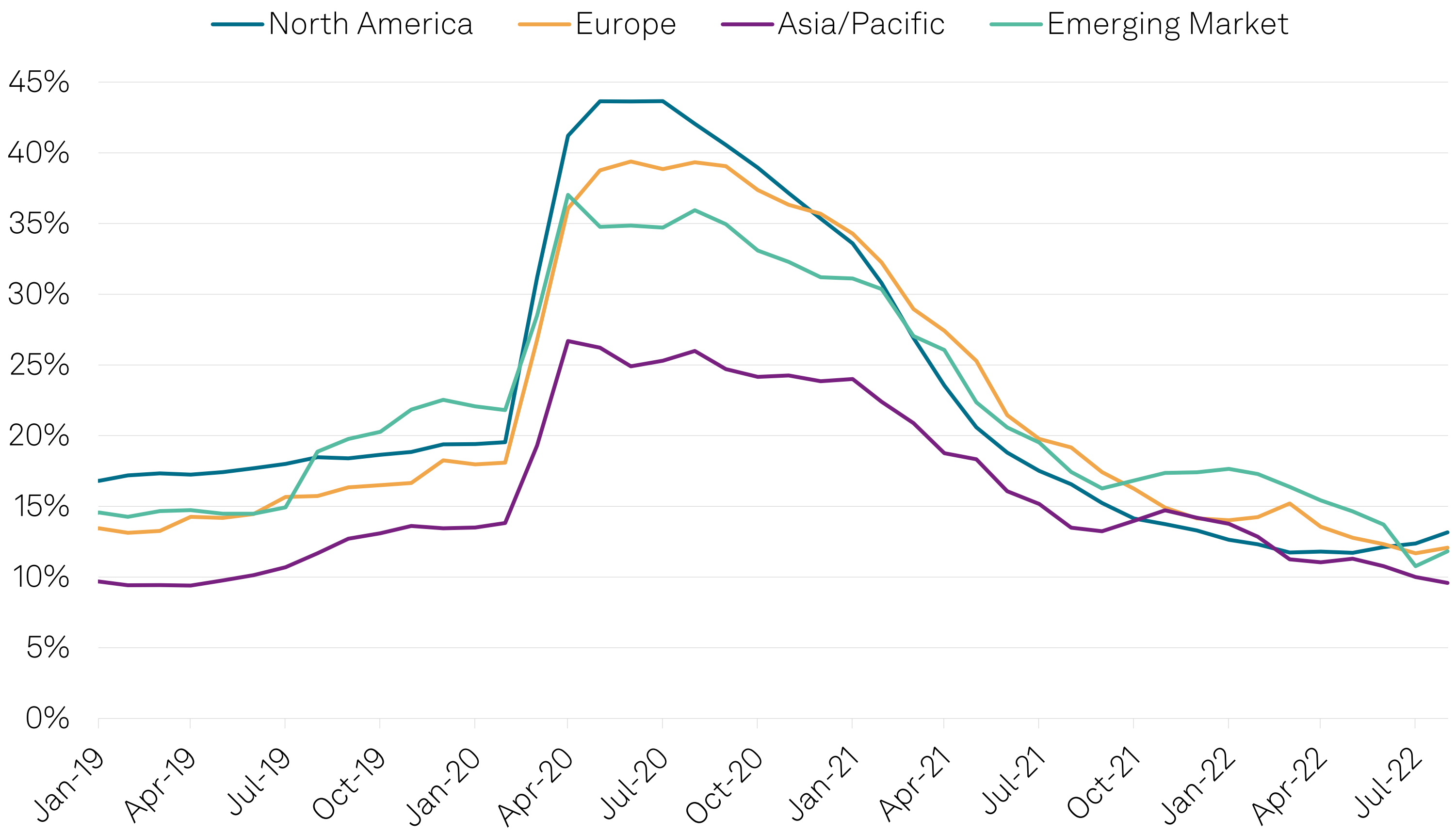
Net: upgrades minus downgrades. Downgrades shown as a negative number. Data as of Aug. 31, 2022. Excludes Sovereign and defaults. Source: S&P Global Ratings Credit Research & Insights.

Quarterly Downgrade Ratio

Chart shows downgrades as a percent of rating actions. Data as of Aug. 31, 2022. Excludes Sovereign. EM—Emerging markets. Source: S&P Global Ratings Credit Research & Insights.

Credit Trends | Outlooks Suggest A Negative Turn

Negative Bias Signals Downgrade Risk Begins To Rise



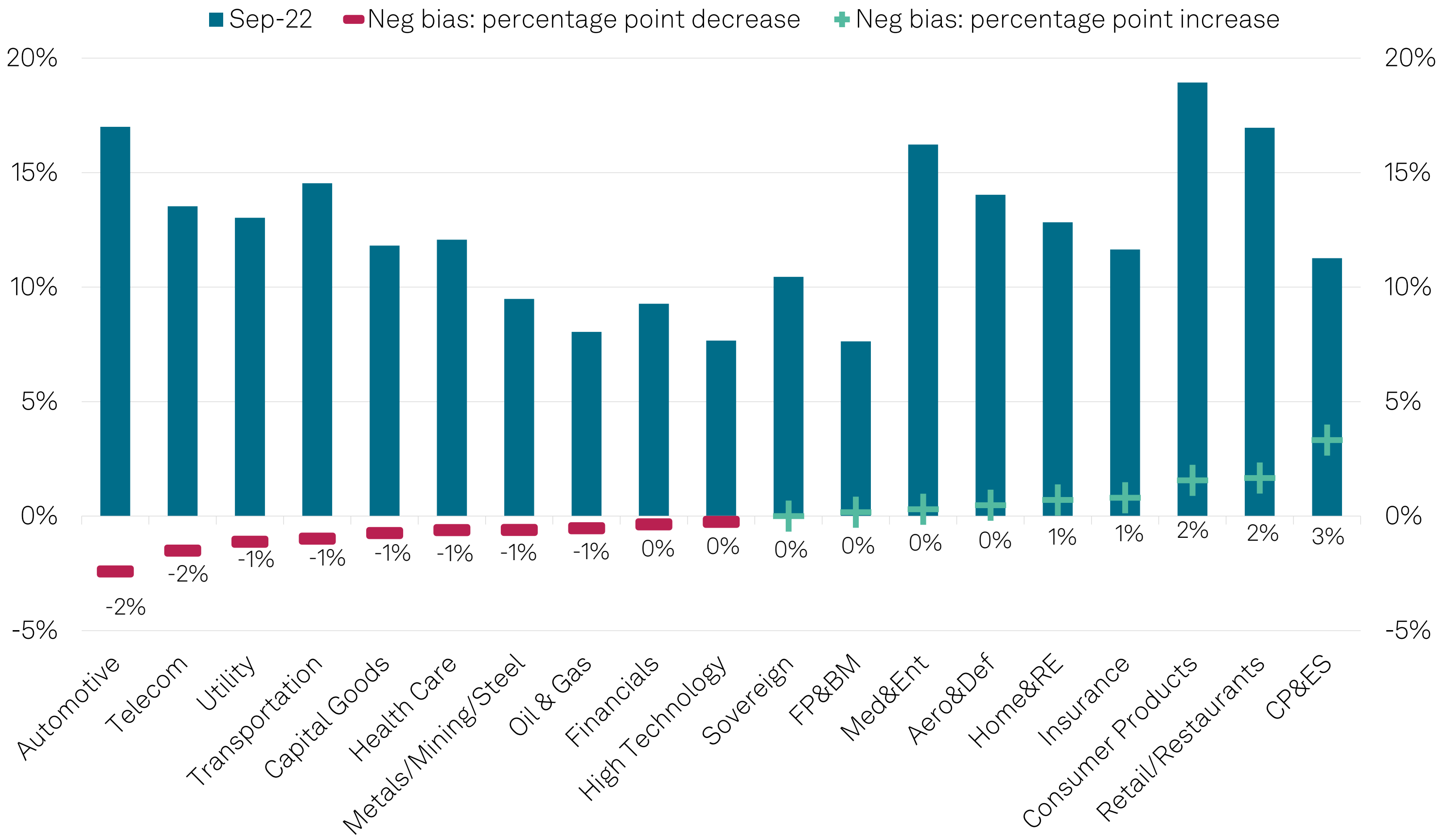
- **Rating outlooks suggest rating trends will continue to turn negative.**
- The negative bias is beginning to rise in North America and emerging markets. It is no longer declining in Europe, capping nearly two years of declines.
- This uptick in downgrade potential marks a turning point from the very low rates of the past year.

Negative bias is the share of issuers with ratings that either have a negative outlook or that are on CreditWatch with negative implications. Data as of Aug. 31, 2022, and exclude sovereign. Source: S&P Global Ratings Credit Research & Insights.

S&P Global Ratings

Credit Trends | Sector Downgrade Risks Begin To Diverge

Global Downgrade Potential Shows Little Net Increase



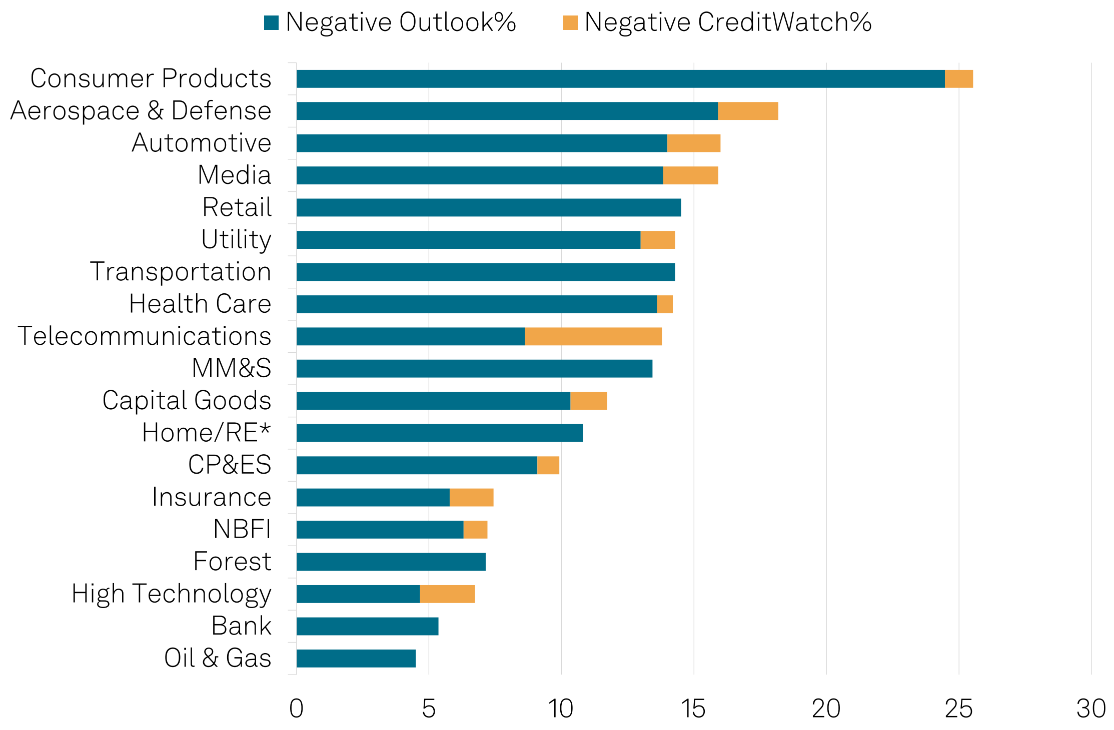
- **Shifts in the negative bias reflect credit rating stability.** Chemical packaging and environmental services, consumer products, and retail and restaurants lead with the highest percentage point change in negative bias.
- However, nearly half the sectors continue to reflect credit rating stability including autos, telecom, and energy.

Negative bias is the share of issuers with ratings that either have a negative outlook or that are on CreditWatch with negative implications. CP&ES – Chemicals, packaging and environmental services, NBFI – NonBank Financial Institutions (ex. Insurance), MM&S – Metals, Mining & Steel, Retail – Retail/restaurants, Forest – Forest products and building materials, Home/Re – Homebuilders / real estate companies. Media – Media and entertainment sector includes leisure and lodging. Data as of Aug. 31, 2022, and exclude sovereign. Source: S&P Global Ratings Credit Research & Insights.

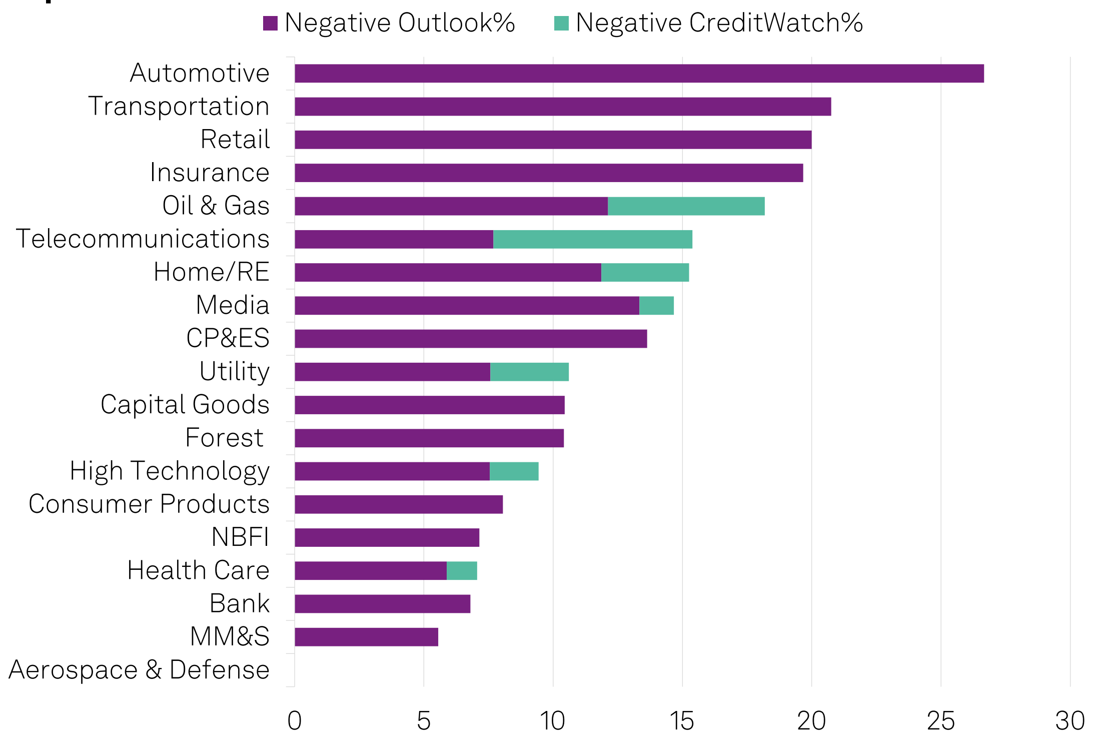
Credit Trends | Downgrade Risk: Regional Divergence

- Consumers are countering rising prices by shifting preferences. This weighs on the outlook for several sectors, including consumer products in North America. Ongoing supply bottlenecks continue to challenge several sectors, including automotive.
- Oil and gas shows a sharply diverging negative bias by region, as higher gas prices from the Russia-Ukraine conflict have benefitted North American producers while presenting an ongoing challenge to European firms.

North America

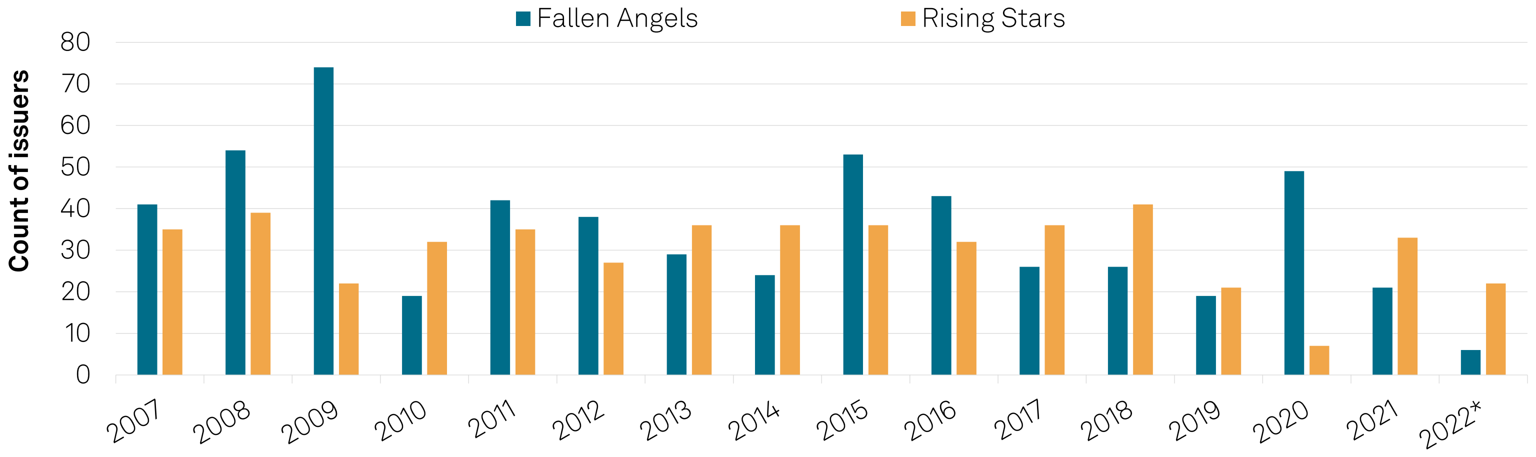


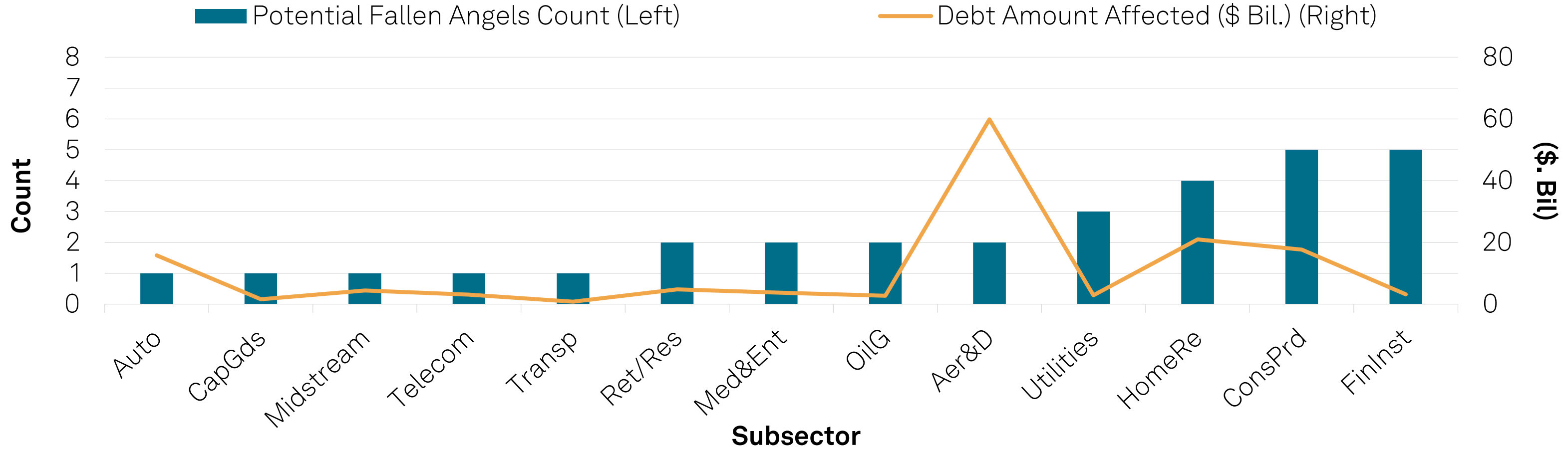
Europe



CP&ES – Chemicals, packaging and environmental services, NBFI – NonBank Financial Institutions (ex. Insurance), MM&S – Metals, Mining & Steel, Retail – Retail/restaurants, Forest – Forest products and building materials, Home/Re – Homebuilders / real estate companies. Media – Media and entertainment sector includes leisure and lodging. Data as of Aug. 31, 2022, and exclude sovereign. Source: S&P Global Ratings Credit Research & Insights.

Credit Trends | On A Positive Note, Investment-Grade Trends Show Continued Resilience



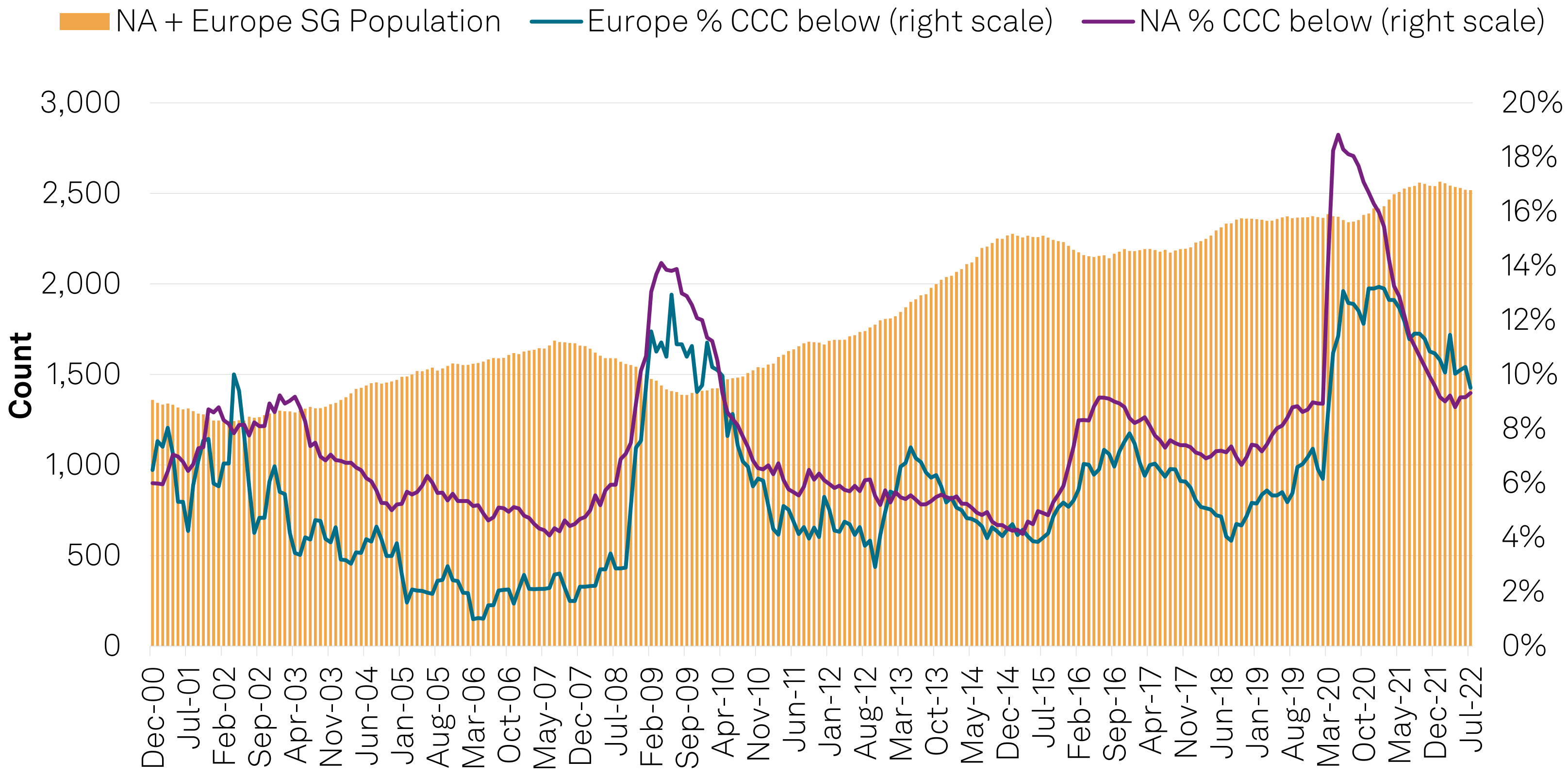


- **Rising stars continue to outpace fallen angels in 2022,** as credit quality of higher-rated issuers continues to benefit from pandemic recoveries, but the operating environment is growing increasingly challenging amid rising macroeconomic risks.
- Potential fallen angels (issuers rated ‘BBB-’ by S&P Global Ratings with negative outlooks or ratings on CreditWatch with negative implications) have held at 31 for three months, just slightly above the all-time low in May. However, potential downgrades continue to rise, notably among speculative-grade issuers.
- **However, market turbulence, tighter financing conditions, and rising inflation are stirring headwinds.** Consumer products, real estate, and utilities, which face sharply rising input costs, have the most nonfinancial potential fallen angels.

Note excludes 11 Russian, or Russia-related, entities that were fallen angels in March 2022, whose ratings were subsequently withdrawn in compliance with EU sanctions. Aer&D - Aerospace & Defense, Auto - Automotive, CapGds - Capital Goods, ConsPrd - Consumer Products, FinInst - Financial Institutions, HiTech - High Technology, HomeRE - Homebuilders/Real Estate Co., Med&Ent - Media & Entertainment, MerPower - Merchant Power, OilG - Oil & Gas, Ret/Res - Retail/Restaurants, Transp - Transportation. Excludes Sovereign Data as of Aug. 31, 2022. Source: S&P Global Ratings Credit Research & Insights.*

Credit Trends | Weaker Positioned

Weakest Ratings Account For A Higher Share Of Ratings Than In Late 2019



- **Corporate credit approaches the next downturn from a weaker position than the last time around.**
- The number of speculative-grade companies in North America and Europe, the Middle East, and Africa remains higher, with a larger portion rated 'CCC+' or lower, than before the pandemic.
- The number of issuers rated **'CCC+' and below in Europe is nearly double that of December 2019.**

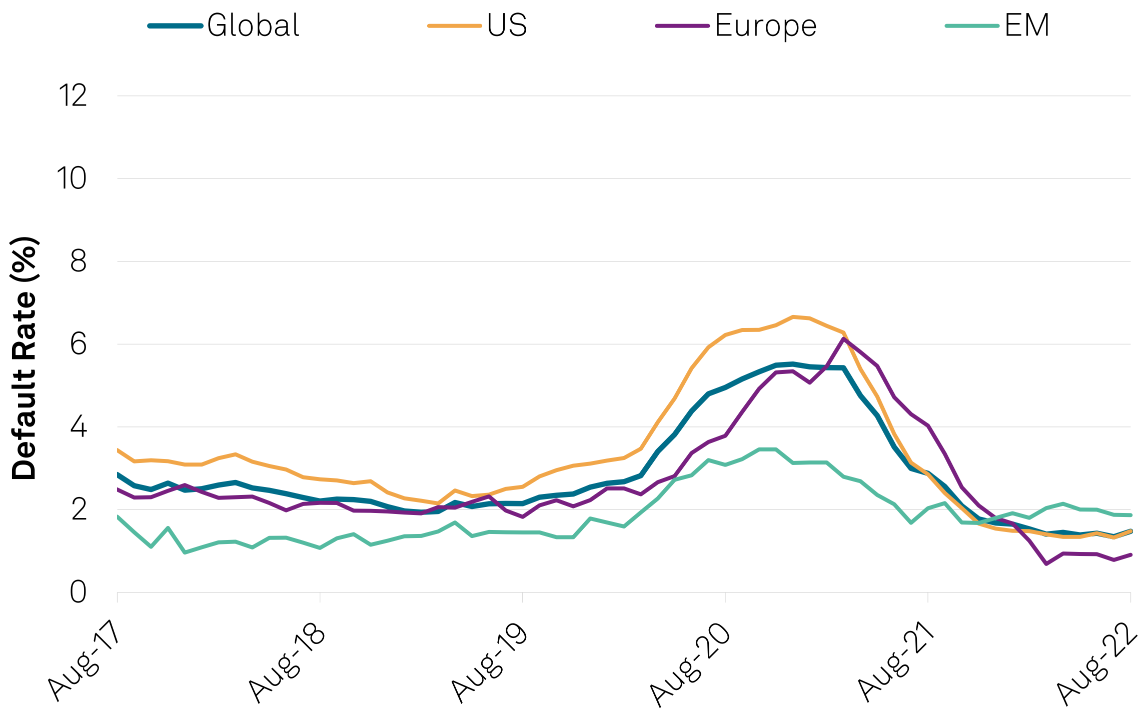
Default rates as of August 2022. Weakest links and speculative-grade data as of Aug. 31, 2022. Sources: S&P Global Ratings Credit Research & Insights and S&P Global Market Intelligence's CreditPro®.

Credit Trends | Low Default Rate Shows Risk Of Acceleration

- The number of defaults in 2022 is marginally lower than in recent years, but they show signs of picking up with 10 in August.
- Bankruptcies, largely U.S. companies, led the August increase.

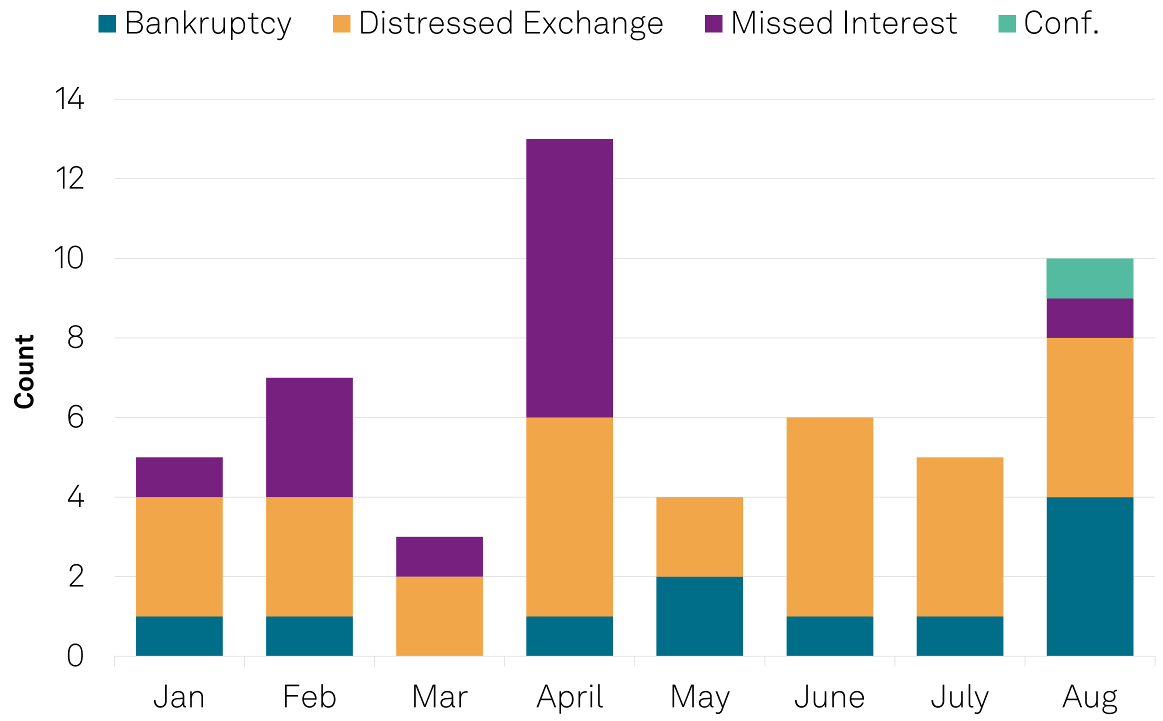
Default Rates Have Held Near Lows

Trailing 12-month speculative-grade default rate



But Default Activity Is Increasing In Recent Months

Global monthly defaults by reason



**Default tally data as of Aug. 31, 2022. Default rates as of August 2022. Source: S&P Global Ratings Credit Research & Insights and S&P Global Market Intelligence's CreditPro®.*

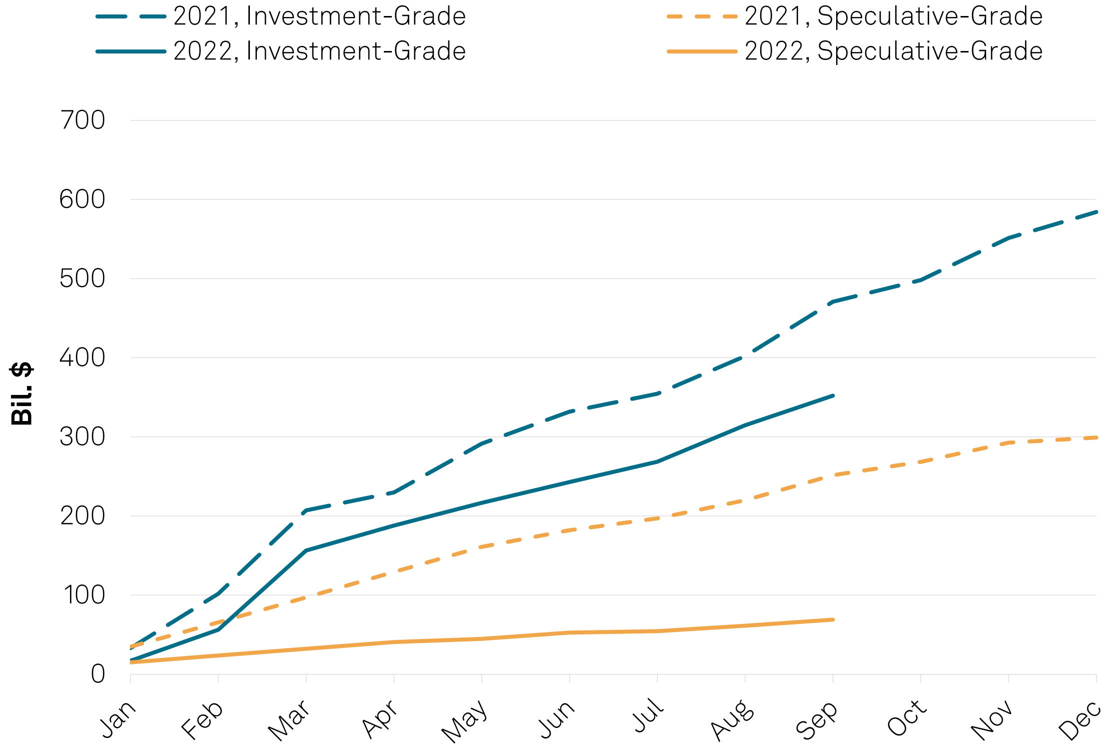
Regional Issuance

S&P Global Ratings

U.S. | Deteriorating Credit Conditions Stall Issuance

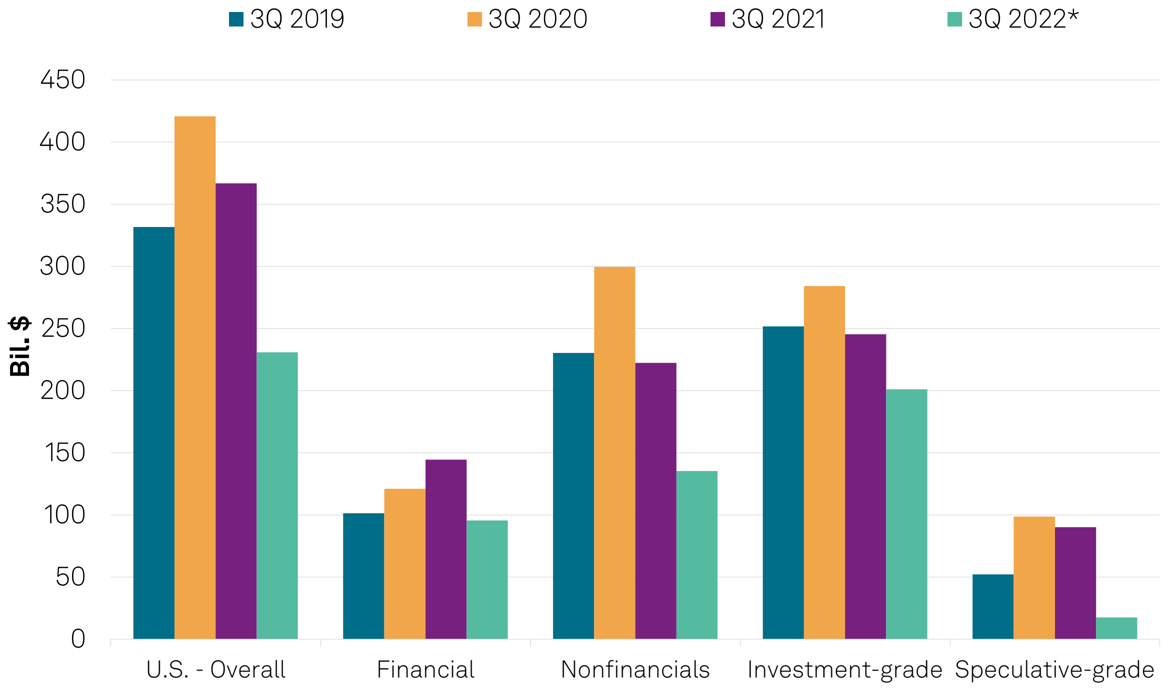
- **Facing deteriorating credit conditions,** borrowers are largely avoiding the primary markets for new issuance.
- Rapidly rising rates have been a major headwind.
- **U.S. speculative-grade nonfinancial** issuance has led the slowdown, with issuance in 2022 down 75% compared to the same period in 2021, while **U.S. investment-grade nonfinancial** issuance is down 26%.

New Nonfinancial Bond Issuance (Cumulative)



Data as of Sept. 28, 2022. Sources: S&P Global Ratings Credit Research & Insights, Refinitiv.

U.S. New Bond Issuance By Category

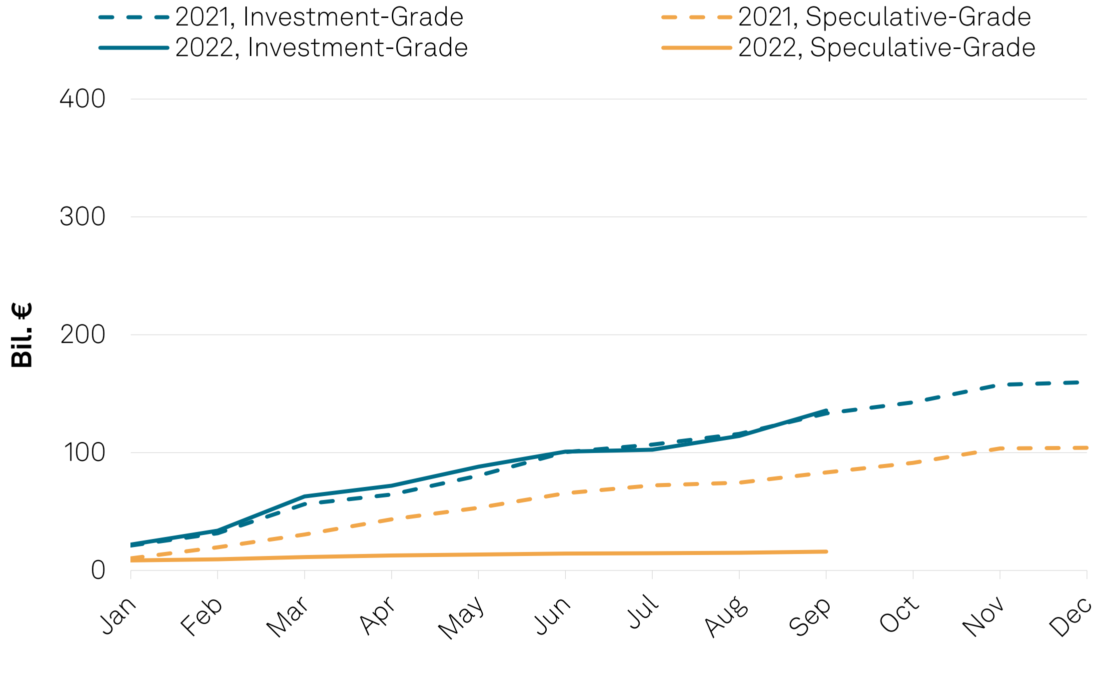


**Denotes year-to-date data as of (July 1 – Sept. 28, 2022). Data including both financial and nonfinancial corporates. Overall, Financials, Nonfinancial includes unrated issuances. Sources: S&P Global Ratings Credit Research & Insights, Refinitiv.*

Europe | Conditions Resilient For Investment-Grade, Moribund For Speculative-Grade

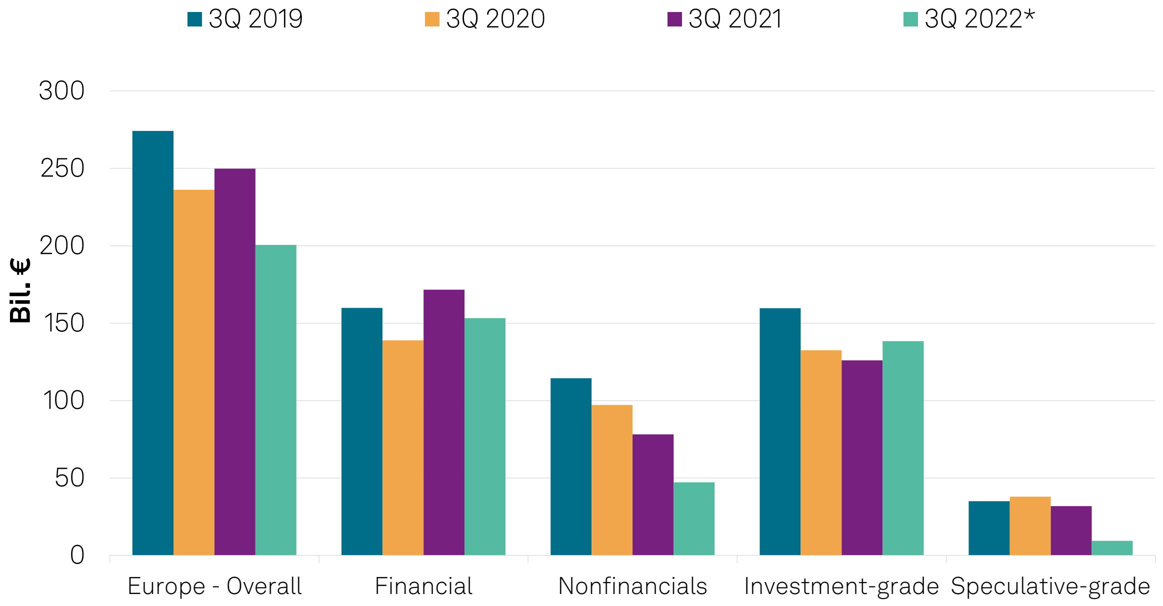
- **European investment-grade corporate issuance has held strong this year,** down less than 5%.
- By contrast, **speculative-grade nonfinancial issuance volumes have yet to pick up after collapsing this year.** Volume is down 81.
- As financing conditions continue to tighten and credit conditions weaken, there is no clear catalyst for a meaningful reopening of speculative-grade primary markets.

New Nonfinancial Bond Issuance (Cumulative)



Data as of Sept. 28, 2022. Sources: S&P Global Ratings Credit Research & Insights, Refinitiv.

Europe New Bond Issuance By Category

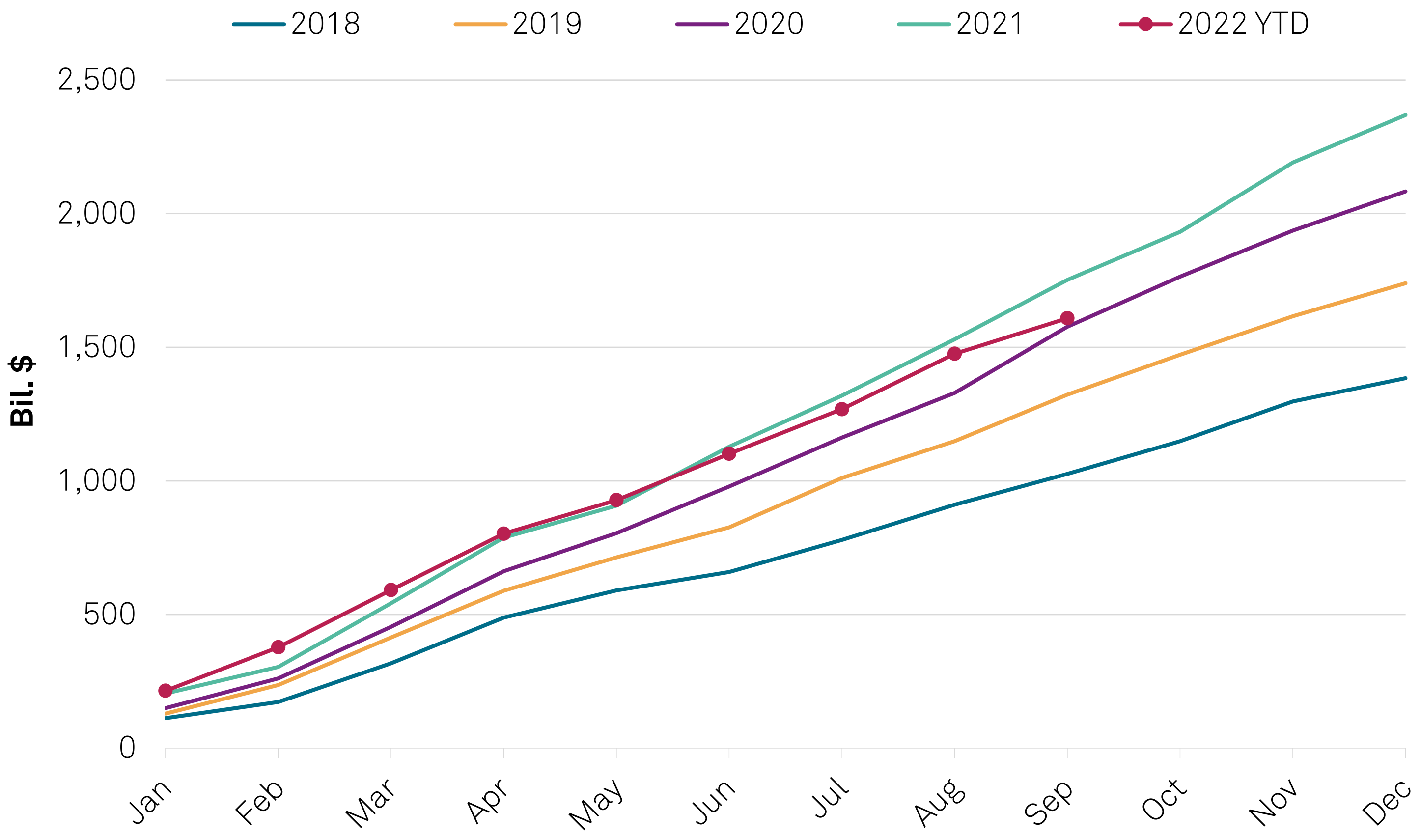


**Denotes second-quarter data as of Sept. 28, 2022. Data including both financial and nonfinancial corporates, with rated and unrated debt. Overall, Financials, Nonfinancial includes unrated issuances. Sources: S&P Global Ratings Credit Research & Insights, Refinitiv.*

S&P Global
Ratings

APAC | Speculative-Grade Market Is All But Closed

Asia-Pacific Cumulative Corporate (Financial And Nonfinancial) New Bond Issuance



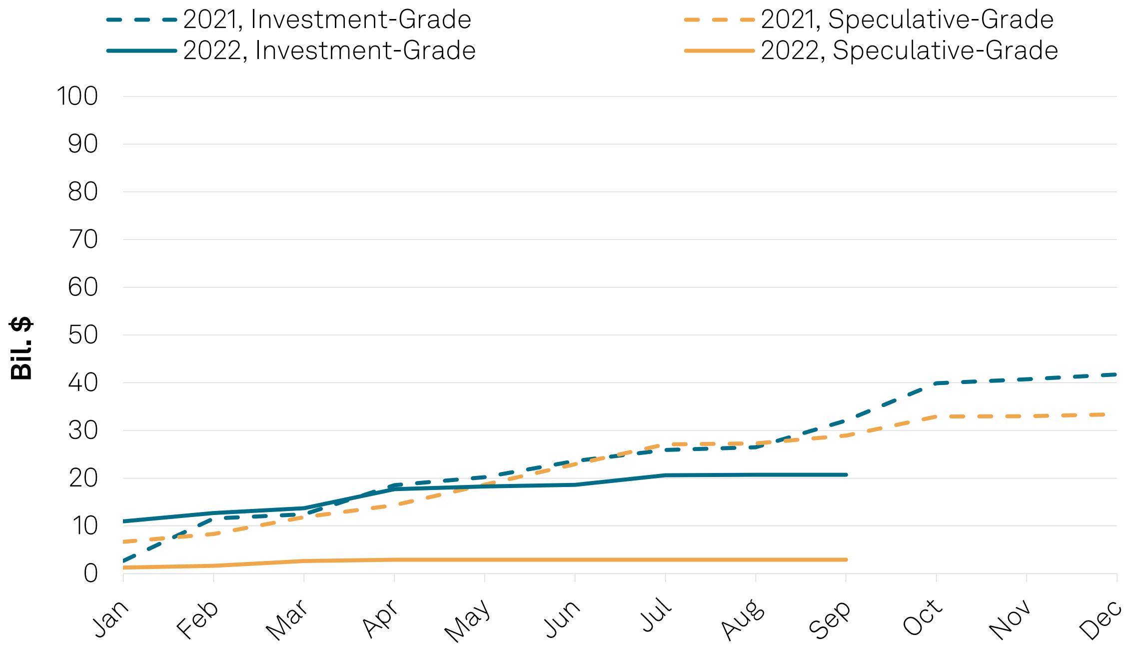
Issuance volumes including financial and nonfinancial corporate issuers of rated and unrated bonds. Data as of Sept. 28, 2022. Source: S&P Global Ratings Credit Research & Insights; Refinitiv.

- Monetary policy tightening continues to varying degrees in the U.S. and across the region, leading to **tighter financing conditions both domestically and externally in the Asia-Pacific region.**
- Despite funding costs ratcheting higher, Asia-Pacific issuance volumes held up better than expected through August, only slightly below last year's record high. However, issuance has further slowed in the third quarter and now trails the last two years' volumes year-to-date.
- **Higher quality and/or better-known names** account for most issuance as the **bond market remains largely closed to new speculative-grade bond issuance.**

Emerging Markets | Bond Issuance Drags

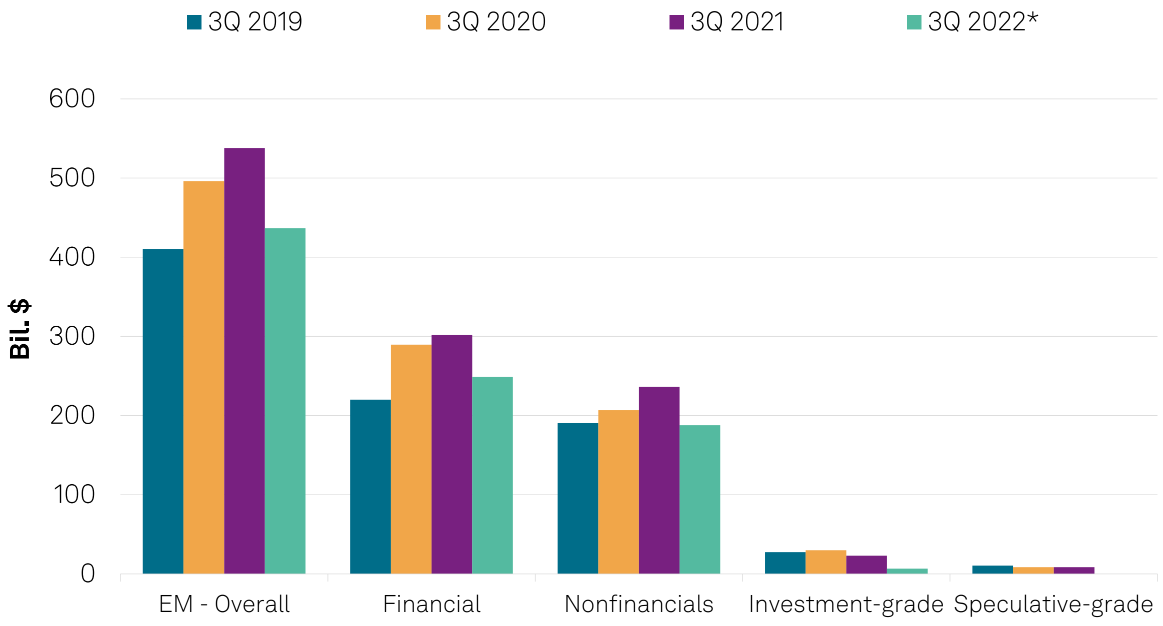
- **The slowdown in issuance is more pronounced in overall emerging markets than in Asia-Pacific.** Here, too, speculative-grade deals have lagged. But even investment-grade issuance has been largely flat since July.
- **With financing conditions tightening globally and macroeconomic risks increasing,** overall issuance volumes are unlikely to strongly rebound soon.
- Continued declines in **investor confidence remain a further risk** if this leads to sharp portfolio outflows from equity and bond markets.

New Nonfinancial Bond Issuance (Cumulative)



Data as of Sept. 28, 2022. Sources: S&P Global Ratings Credit Research & Insights, Refinitiv.

Emerging Market New Bond Issuance By Category



**Denotes year-to-date data as of July 1 – Sept. 28 , 2022. Data including both financial and nonfinancial corporates. Overall, Financials, Nonfinancial includes unrated issuances. EM—Emerging markets. Sources: S&P Global Ratings Credit Research & Insights, Refinitiv.*

S&P Global
Ratings

Related Research

S&P Global Ratings

Credit Markets And Ratings Performance | Latest Research

- This Week In Credit: Defaults Dial Up, Oct. 10, 2022
- Credit Trends: Downgrades Expected To Pick Up As Demand Starts To Subside, Oct. 7, 2022
- Global Credit Conditions Q4 2022: Darkening Horizons, Sept. 29, 2022
- Economic Research: Global Macro Update: Many Routes To The Bottom, Sept. 28, 2022
- Economic Outlook U.S. Q4 2022: Teeter Totter, Sept. 28, 2022
- Credit Trends: 'BBB' Pulse: Remaining Resilient Despite Rising Risks, Sept. 28, 202
- Default, Transition, and Recovery: U.S. Defaults In August Alone Account For 25% Of Regional Year-To-Date Total, Sept. 19, 2022
- Regional Refinancing: Rising Interest Rates And Strengthening Dollar Present Headwinds, Sept. 8, 2022
- Default, Transition, and Recovery: The Morningstar LSTA U.S. Leveraged Loan Index Default Rate Could Rise To 2.0% By June 2023, Aug. 31, 2022
- Default, Transition, and Recovery: The European Speculative-Grade Corporate Default Rate Could Rise To 3% By June 2023, Aug. 22, 2022
- Credit Trends: Global Refinancing--Rising Rates And Slowing Issuance Drag On Corporate Funding Conditions, Aug. 1, 2022
- Credit Trends: Global Financing Conditions: Bond Issuance Set To Contract 16% After Weak First-Half 2022, With Tough Path Ahead, July 28, 2022
- Default, Transition, and Recovery: North American Consumer-Related Sectors Push The Weakest Link Tally To More Than 200, July 13, 2022

Contributors

Patrick Drury Byrne
Global Head Of Credit Market Research
patrick.drurybyrne@spglobal.com

Evan Gunter
Lead Research Analyst
Ratings Performance Research
evan.gunter@spglobal.com

Vince Conti
Senior Economist
Credit Markets Research
vincent.conti@spglobal.com

Nicole Serino
Associate Director
Credit Markets Research
nicole.serino@spglobal.com

Brenden Kugle
Associate
Credit Markets Research
brenden.kugle@spglobal.com

Luca Rossi
Associate Director
Credit Markets Research
luca.rossi@spglobal.com

Jon Palmer, CFA
Associate
Credit Markets Research
jon.palmer@spglobal.com

Nivritti Mishra
Lead Analyst, Research
CRISIL Global Analytical Center, an S&P Global Ratings affiliate
nivritti.mishra@spglobal.com

Tanya Dias
CRISIL Global Analytical Center, an S&P Global Ratings affiliate
tanya.dias@spglobal.com

Yogesh Kumar
CRISIL Global Analytical Center, an S&P Global Ratings affiliate
yogesh.kumar2@spglobal.com

Copyright © 2022 by Standard & Poor’s Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com (free of charge), and www.ratingsdirect.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Australia: S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.